Introduction
Long-distance trade has fascinated historians almost as long as history has been written. Herodotus described the “Silent trade” conducted on the north coast of Africa between Carthaginian and local merchants, exchanging goods for African gold (Herodotus 2003: Book 4). Merchants and trade have been motifs in historical accounts of nearly all world regions and across time periods with trade networks and interconnections used to explain the development of the Mediterranean, Indian Ocean, and the Atlantic worlds (Braudel, 1995; Riello and Roy, 2009; Williams, 1944).

Business and economic historians have extensively examined the evolution in the organization and scale of international trade. Their studies can be broadly categorized into two sets of questions. First, when, how, and why does the organization of trade change (Chapman, 2004; Jones, 2000)? Second, how do these changes affect the flows and value of trade (Daudi et al., 2010; Findlay and O’Rourke, 2009)? Analysis has sought to identify factors which led to expansion and contraction, the subsequent effects on national and regional economies, and the processes of globalization (Jones, 2007; Pomeranz, 2000).

Business historians have focused on the first set of questions, particularly examining the role played by entrepreneurs and firms in shaping the patterns of global trade and investment. This has revealed a striking heterogeneity of actors, particularly prior to the twentieth century, involved in the coordination of global trade. Producers and manufacturers were linked to consumers by merchants, brokers, agents, and auctioneers who intermediated flows of goods, credit, and information needed to synchronize markets (Aldous, 2017; Van Driel, 2003). They were supported by an array of specialist service providers such as shipping companies, financiers, and insurers (see Chapters 23 and 28 on Insurance and Shipping; Harlaftis and Theotokas, 2004).

Historical analysis of the organization of international business has identified the evolution from individual merchants to the formation of trading companies as a critical development in driving the expansion in the scale and value of international trade. Trading companies developed functions and specializations that mitigated problems of long-distance trade and improved the efficiency of intermediation and coordination between markets (Chapman, 2004; Jonker and Sluyterman, 2000). They were key makers of global business between the seventeenth and nineteenth centuries, growing global commodity trades, and were the main vehicles for foreign...
direct investment (FDI) until the early twentieth century (Jones, 1998). Multinational enterprises (MNEs), which grew in scale and scope across the twentieth century (Wilkins, 1991), may have reduced their importance, yet to this day general trading companies such as Mitsubishi Co., Cargil Co., and Glencore Plc., remain globally significant entities (see Chapter 29 on Commodity Traders).

Over time, and across geographies, trading companies developed significant variations in terms of their role, ownership, and organization. Merchant houses organized as partnerships, were “intermediary service providers in the supply chain between producers and consumers, as a rule without either producing goods themselves, or selling directly to the final consumers” (Jonker and Sluyterman, 2000: 10). Conversely, chartered trading companies, were organized as joint-stock corporations. Whilst intermediating trade, these firms vertically integrated into host markets through ownership of production and manufacturing facilities (Carlos and Nicholas, 1988). Additional variation occurred through specialization by region and product, and diversification into areas such as banking, insurance, and related services.

Further organizational forms involved in facilitating international trade, have been identified as increasingly important in the nineteenth century. Business groups used networks of legally distinct firms to cooperate through hybrid forms of ownership and control, to coordinate trade and production activities across national borders (see Chapters 15 and 16 on Business Groups and Networks). Whilst free-standing companies, incorporated in major capital markets like London or Amsterdam, vertically integrated international operations in sectors such as mining and plantations (Wilkins, 1988b).

These variations, shown in Table 13.1, raise questions as to when and why did trading companies diversify and change their ownership form and organizational structure? Subsequently, how do such choices effect firm and economic performance? This chapter explores these debates, setting out the main explanations for these experiments with organizational forms, and considering the effects these innovations had on the scale of international trade.

In particular, the chapter highlights methodological issues associated with analysis of trading companies caused by identification and definitional problems. The significant variation in function and organization, make sharp definitions, and subsequent categorization of trading companies difficult (Jones, 2000). To mitigate these problems, and ensure “like-with-like” analysis and robust findings, research tends to focus analysis on discrete forms. This approach potentially limits analysis of change between different forms, and subsequent examination of effects on wider phenomena such as economic growth and divergence. How, then, should trading companies be defined and analyzed?

Rather than narrowly focus on specific forms, the chapter proposes that researchers utilize longitudinal studies of the organization of international trade focused on understanding why different organizational forms emerged and evolved. This level of analysis accounts for the wide

<table>
<thead>
<tr>
<th>Firm type</th>
<th>Ownership form</th>
<th>Organizational structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchant house</td>
<td>Partnership</td>
<td>Networks of trading firms</td>
</tr>
<tr>
<td>Chartered trading company</td>
<td>Joint-stock</td>
<td>Vertically integrated, diverse operations</td>
</tr>
<tr>
<td>Business group</td>
<td>Hybrid</td>
<td>Group of managed firms</td>
</tr>
<tr>
<td>Free standing company</td>
<td>Joint-stock</td>
<td>Vertically integrated, specialized operations</td>
</tr>
</tbody>
</table>

ecology of firms involved in international trade. It specifically considers the conditions under which change of form occurs, and allows analysis of correlation with the economic development of regions and industries.

This approach is illustrated through current research into the nineteenth century Anglo-Indian trade (Aldous, 2015). It shows how merchants used a wide range of business forms in innovative combinations, to address various economic and managerial challenges. These developments are correlated with the dramatic expansion of the trade, which saw India become one of Britain’s largest import and export markets by the 1850s (Chapman, 2004: 8), and can be more widely linked to the expansion of the value of Britain’s international trade as a share of gross domestic product (GDP), which rose from 21 percent in 1820 to 44 percent by 1870 (Daudi et al., 2010: 106).

The focus of this chapter is limited to analysis of European trading companies between the seventeenth and nineteenth centuries. The emergence of the joint-stock chartered trading companies, and subsequent heterogeneity of business types involved in the expansion of Europe’s international trade, are crucial factors in explaining the growth of international trade and globalization. Yet, important new research into the operations of merchants indigenous to India, China, the Levant, and Africa is revealing that innovation in mercantile activity and growth of global trade activity was not solely a European phenomenon. The expansion of networks, innovation of organizational structures, and diversification of activities was undertaken, both alongside and distinct from European activities, and had significant impact on the patterns of international trade (Machado, 2014; Markovits, 2000; Mathew, 2016).

A historical narrative of European trading companies

Long-distance trade in Europe expanded during the medieval period as innovations, such as the commenda contract, enabled individual merchants to enter legally recognized and enforced partnerships and build international networks. These innovations supported the pooling of capital and diversification of risks, which increased the scale and scope of mercantile operations (Grief, 2006). In the late medieval period, these trading networks were formalized and strengthened by institutional arrangements such as the Hanseatic League, and partnerships between merchant families, like the Medici, and the governments of Italian city states, such as Venice and Genoa (see Chapter 11 on merchants and origins of capitalism). The early modern period, saw merchants develop proto-firm structures, often using partnerships, which extended their reach and capacity throughout Europe, and into wider trade routes in the Mediterranean, Levant, and Asia.

Yet, it was the response of entrepreneurs to the opportunities opened by European explorers in Africa, Asia, and the Americas in the fifteenth and sixteenth centuries that resulted in the most dramatic changes to the organization of long-distance trade. The size of the risks, in part exacerbated by the long distances between European mercantile centers and the new markets, and the scale of the opportunities offered by high value products such as spices, called for levels of investment beyond the scope of individual merchants or existing partnership networks. The need for deep capital reserves that could be retained and reinvested year after year encouraged entrepreneurs to utilize the joint-stock corporate form (Gelderblom et al., 2013).

These early modern chartered trading companies, such as the English East India Company (EIC), Dutch East India Company, and Hudson’s Bay Company used joint-stock ownership to enable investment in infrastructure, allowing the firms to extend their operations in Asia, Africa, and North America (Chaudhuri, 1965). This facilitated the establishment of permanent trading settlements and production facilities, increasing integration into the host economies, which, in time, supplanted local economic and political systems (Bowen et al., 2002).
The chartered trading companies dominated many long-distance routes, in part because they were protected by government granted monopolies, locking out competition in return for significant contributions to state finances (Bowen, 2005). Yet, by the end of the eighteenth century, a growing free-trade movement saw monopolies rescinded and the chartered trading companies were swept away (Webster, 2009). International trade in the nineteenth century was dominated by private enterprise; predominantly organized as partnerships these firms acted as both intermediators and, depending on the structure of the host market, integrated into local industries (Chapman, 2004). Indigenous merchants also reasserted themselves, and new entrants, particularly from the United States, arrived (Downs, 2015; Oonk, 2013).

Increasing levels of competition, emergence of new industries, and development of new technologies in transport and communication, such as the telegraph, all encouraged extensive experimentation with the organization of trade across the nineteenth century (North, 1968; McCusker, 2005). Firms organized as partnerships still undertook import and export trade, but innovative business forms such as business groups and free-standing companies emerged, alongside increasingly specialized brokers and financiers.

These developments reduced the risks and improved the efficiency of the flows of goods and finance now circling the globe. The result was a dramatic increase in the level of international trade in the period between 1875 and 1913, described as the first wave of globalization (O’Rourke and Williamson, 1999).

The final twist in the historical story of the trading companies began in the late nineteenth century, as firms successful in their domestic markets expanded their operations internationally. The early MNEs were predominantly industrial firms that established overseas subsidiaries to secure supply chains and open new markets for their products (Wilkins, 1971). The vertical and horizontal integration of these activities into a single business entity reduced the scope for trading companies to provide intermediary services. The MNE model was rapidly entrenched in Europe, the US, and parts of Asia and dominated international trade in the second half of the twentieth century (Wilkins, 1991). Yet, trading companies, having evolved and diversified to find new opportunities, remain important in certain regions and industries to this day (Broehl, 1998).

Major themes of analysis

Central to this narrative, and one of the dominant questions for business historians is, how did merchants coordinate markets over thousands of kilometers with communication reduced to the speed of foot and sail (Aldous, 2015; Carlos, 1992; Jones, 2000)? The separation of market participants by time and space created difficulties in coordination and decision making. These challenges were exacerbated by volatility in political and economic conditions in home and host markets. Business historians seek to understand the nature of these challenges and how merchants mitigated these risks. This analysis can be broadly categorized into three themes: examining the organization of the firms, understanding the environment in which they operated, and assessing the outcomes of their activities.

The firm

The narrative of the European trading companies identified the emergence of proto-firms in the late medieval period, the proliferation of the chartered trading companies using the joint-stock form in the seventeenth century, and the innovation and experimentation with business forms in the nineteenth century, as developments that stimulated significant increases in the scale and
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scope of trade. These innovations, and their effects on scale, can be linked to changes in operations and ownership.

Their main operations were, initially, as intermediators for commodities and goods, acting as import–export agents, brokers, and resellers. However, the efficient functioning and coordination of markets required flows of information, credit, and capital, as well as the provision of services such as transportation and shipping. Trading companies created organizational structures, such as networks of agents, to facilitate the exchange of information and knowledge. They also diversified their activities into industries such as banking, to facilitate flows of credit and capital, particularly in regions with thin financial markets and lacking services and infrastructure (Casson, 1998; Jones, 1995).

In certain regions and industries, they also integrated upstream into manufacturing and production, particularly when transaction costs could be lowered, and local expertise and knowledge was crucial (Hennart, 1998). Over time, the firms developed wide-ranging capabilities, diversifying and innovating in areas such as marketing, merchant banking, infrastructure development, and manufacturing, as conditions demanded (Llorca-Jaña 2012; Webster, 2005).

The evolving nature of these activities encouraged innovation with ownership and organization. The chartered trading companies utilized the joint-stock form to deepen capital reserves and diversify risks for investors, allowing greater levels of investment to be channeled overseas. This allowed integration into more capital intensive activities such as manufacturing (Chaudhuri, 1965; Carlos and Nicholas, 1988).

Yet, the joint-stock chartered trading companies, due to the separation of owners and managers inherent in the ownership structure, were troubled by difficulties in controlling their agents at distance (Adams, 1996; Carlos and Nicholas, 1990). Partnership firms utilized their ownership structure, involving capital investment and profit share, to align the interests of networks of geographically dispersed partners, improving control and coordination (Dejung, 2013). This gave them agility and flexibility to respond to the volatile risks and opportunities in international markets (Jones, 2000).

Trading companies faced a trade-off between the joint-stock form’s capacity to expand operational scope and achieve scale efficiencies, and the partnership’s governance systems to successfully operate at distance. This encouraged innovation to address the weaknesses of the organizational forms. Trading companies were at the forefront of experiments with incentives, such as private trade, and control mechanisms like employment contracts, to better control agents at distance (Hejeebu, 2005; Yates et al., 2002). Whilst innovation in ownership saw entrepreneurs experiment with business groups to achieve scale and resolve governance problems, and free-standing companies to more efficiently channel capital investments (Buchnea, 2014; Jones and Wale, 1998; Wilkins and Schroter, 1998).

The environment

The analysis of the relationship between organizational form and function show that diversification into more resource and capital intensive activities, like banking and manufacturing, were key factors driving change in the structure of trading companies. These processes can be closely related to developments in the economic and political environment, as institutions, industries, infrastructure, and financial systems evolved in home and host markets.

One of the widely identified drivers of change was technological innovations in transportation and communication. Improvements to ship design, coupled with infrastructure developments, dramatically improved the speed of communication, improving the coordination of activities, and reducing freight costs (Kaukiainen, 2001; Rönnbäck, 2016). Similar effects were
delivered through technological changes in communication. In the nineteenth century, the telegraph revolutionized the capacity of firms to communicate between distant markets and agents (Hugill, 1999). The telegraph also enabled new financial transactions and markets based on futures contracts (Engel, 2015). Whilst these innovations lowered costs of international business, they also allowed coordination functions to be internally integrated, reducing the need for intermediation (Wilkins, 1988a).

The new technologies created investment opportunities, as did emerging and expanding industries such as rubber and jute (Resor, 1977; Sethia, 1996). They required increased levels of capital investment and managerial expertise, which were often in short supply outside Europe. Trading companies utilized their networks to act as conduits for factors of production and expertise between the developed European capital markets and developing markets. However, the increasing capital intensity of these operations incentivized direct ownership and management to reduce transaction costs and improve control, encouraging experimentation with the free-standing company model (Hennart, 1998; Hennart and Kryda, 1998). Change in the structure of markets and industries encouraged experimentation with organizational and ownership solutions.

Similarly, developments in financing also played a significant role in expanding and changing the nature of international trade. Systems of credit requiring transfers of bullion were gradually replaced by innovations like the “Bill of Exchange,” and more nuanced accounting practices for advancing credit, enabling expansion of geographically dispersed credit networks (Gervais et al., 2014; Llorca-Jaña, 2011). However, advances in merchant and correspondent banking saw specialization in the funding of international trade reduce the need for trading companies to undertake these activities (Chapman, 1984). Innovation and growth in capital markets, such as Amsterdam and London, allowed entrepreneurs and investors to increasingly utilize the joint-stock form to channel capital into foreign investments (Gelderblom and Jonker, 2004).

A key determinant of the opportunities and constraints facing trading companies was change in the institutional frameworks in both home and host markets. The proliferation of joint-stock companies and growth in capital markets were closely correlated, and enabled by innovation in legal and financial institutions (Steengard, 1982). These processes were shaped by interactions between merchants, financiers, and politicians defining policies toward trade (Bowen, 2005; Jones, 1987), which over time saw a gradual shift from mercantilist to free trade ideologies. Similarly, philosophies of imperialism reshaped access to colonial markets (Gallagher and Robinson, 1953). These developments determined how and where the trading companies could operate.

### The outcomes

Interaction between trading companies and their home and host environments drove experimentation and innovation in firm organization. The effects were varied, but innovations in business form that leveraged networks structures to channel flows of credit, information, and managerial expertise, and vertically integrated structurers which enhanced control and efficiencies, improved the capacity and performance of the firms, growing the scale and flows of trade (Jones, 2000; Wilkins, 1988a). Take-offs in the eighteenth century and late nineteenth century have been identified through analysis of levels of market integration achieved through the quantification of the flows of goods, capital, and people (Bordo et al., 2003).

Changes in these flows have been used to analyze economic development in the regions involved. The innovative capacity of British merchants generated flows of resources, profits, and expertise that drove the industrial revolution (Davies, 1979). However, the extent to which host countries, such as India and China, benefited from this trade is widely debated (Roy, 2000).
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Increased levels of FDI sparked industrial development, but extractive colonial regimes saw the returns from trade and market integration unequally distributed between the core and periphery (Wallerstein, 2011). The asynchronous and unequal returns generated by international trade have been linked to the “Great divergence” as Western European economies rapidly outgrew those of Qing China, Japan, and Mughal India in the eighteenth and nineteenth centuries (Pomeranz, 2000).

The outcomes for the trading companies themselves are also widely debated. Chartered trading companies achieved great scale and importance in the seventeenth and eighteenth centuries. Yet, technological change, market integration, and innovations in the ownership and organization of firms reduced the scope for intermediation and enabled the proliferation of MNEs. Despite these changes, Jones (1998: 2) remarks that trading companies are, “highly entrepreneurial corporate forms, constantly alert to new opportunities and resourceful in setting up the systems and creating flexible organizations.” Their adaptability, coupled with expertise in the creation and management of information and knowledge, continued to provide sources of competitive advantage throughout the twentieth century (Jones and Wale, 2006).

Current debates

Determining the causation and correlation between changes in business form, the economic and political environment, and effects on firm and economic performance is widely debated. There is no consensus on a historically optimal business form, instead entrepreneurs have selected from a “menu of organizational choice”; their choice shaped by variation in legal and economic institutions (Guinanne et al., 2007). The different capabilities of the joint-stock, partnership and cooperative business forms in mitigating the effects of a range of economic problems, and the impact of these choices on firm performance and economic development, are widely debated (Lamoreaux et al., 2003).

International trade has been less widely covered in these debates, yet offers interesting possibilities to advance them due to the use of diverse business forms. Growth in the eighteenth century was driven by joint-stock chartered companies, but the dramatic expansion in the late nineteenth century was correlated with a variety of business forms. The trade-off between the need for capital depth provided by the joint-stock form and strong governance inherent in the partnership, were particularly acute when doing business at distance (Hilt, 2006; Silverman and Ingram, 2017). Identifying an optimal form to address the challenges of international trade is an open question.

In the case of the trading companies these debates are further complicated by a definitional and identification problem. The diverse nature of ownership and broad scope of the trading companies’ operations make precise definitions and identification of a firm type difficult. Chapman (2004: 3), defined merchants as, “taken to be entrepreneurs engaged in foreign (overseas) commerce as wholesale traders.” Yet, it is hard to define trading companies as discrete entities, when many functioned as networks or groups with shared ownership but unrelated functions (Jones, 2000). Defining the boundaries, activities, and organization of the trading firms to obtain a neat unit of analysis is problematic.

This creates a methodological issue of selection. Analysis of a set, and subsequent comparisons between them, requires a definition so that the sets can be clearly distinguished (Lamoreaux, 2006). Although sharing common antecedents, should merchant houses and chartered trading companies be grouped in a single set? Should business groups or free-standing joint-stock firms, pursuing activities as varied as merchant banking and plantation management, be classified as trading companies? Indeed, can trading companies be analyzed as a homogeneous group?
To mitigate these problems, historians have tended to focus on discrete business types. For example, Jonker and Sluyterman (2000: 9–10) specifically identify, and limit their analysis to, merchant houses. There are clear methodological benefits of a narrowly defined unit of analysis, yet this approach potentially limits explanations. Narrow identification strategies limit analysis of the dynamics between and amongst types. It may also lead to potentially important forms being ignored and explanations overdetermined in favor of a neatly defined ideal type, and subsequently limits claims around performance and impact.

How, then, should researchers expand the scope of their explanations? Jones (1998: 3) notes that, “little can be done about such definitional problems beyond pointing them out.” Indeed, the definitions allow diversification and hybridization to be identified, and subsequent analysis can focus on the factors shaping these changes.

This approach can be taken further through longitudinal studies of the organization of international trade, which rather than narrowly focus on specific forms, explicitly analyzes the transitions between different organizational forms. Research can focus on a region or product to understand the conditions under which trading companies adapt and innovate, and specifically consider decisions to diversify or integrate activities. This level of analysis accounts for the wide ecology of firms involved in international trade, and embraces the debates on the menu of organizational choice. The outcomes of these decisions can be assessed in terms of firm performance, and correlation with the economic development of regions and industries.

Trading companies in nineteenth century Anglo-Indian trade

New research into change in the organization of the Anglo-Indian trade across the nineteenth century can illustrate the opportunities of this approach in explaining the changing role and impact of trading companies. The longevity of British mercantile interests in India, stretching from the sixteenth century to the present day, saw significant changes in the organization of the trade over time. One of the most dramatic transitions occurred in 1813 when the EIC’s monopoly on trade with India was rescinded, opening new opportunities to private merchants. Those entering the market had, however, to reorganize the EIC’s established system of trade that encompassed complex flows of credit to fund the manufacturing, purchase, and marketing of goods (Furber, 1948).

The extant literature has identified three distinct business types involved in the organization of the trade after 1813. First, the agency houses bear greatest similarity to merchant houses. Organized as partnerships, they operated in conjunction with corresponding trading firms in Britain to facilitate a flow of goods, such as Indian indigo and British manufactured goods, and credit between Britain and India (Tripathi, 1980). Initially acting as commission agents, agency houses, such as John Palmer and Co., became increasingly engaged in local industries, particularly indigo, as direct investors and owners (Singh, 1966; Webster, 2007).

The second are managing agents, which can be defined as diversified business groups based around a central firm organized as a partnership (Jones and Wale, 1998). The managing agent promoted joint-stock firms and used contractual mechanisms such as cross-directorates to control them (Lokanathan, 1935). This diversified the risks of integration into local industries such as tea and jute. Managing agents, like Carr, Tagore and Co., coordinated the flow of capital, credit, managerial expertise, and products amongst the group and between Britain, India, and other international markets (Kling, 1966; Jones, 2000).

Third, joint-stock firms incorporated in both Calcutta and London, some of which can be classified as free-standing companies, fully integrated production and marketing functions between India and Britain. Firms such as the Assam Co., and Jorehaut Co., proliferated in industries such as tea and jute (Antrobus, 1957; Chapman, 1998; Rungta, 1970).
Questions remain as to when and why the different business forms proliferated or failed, and the subsequent effect of the organization of business on the level and value of trade. The dominant explanations describe how the agency houses diversified to become managing agents around the middle of the century (Chapman, 2004; Roy 2014). Through this process the managing agency system became the dominant method of business organization in India by the end of the nineteenth century. Yet, these explanations have tended to focus analysis either on the agency houses (Singh, 1966; Tripathi, 1980; Webster, 2005) or the managing agents (Lokanathan, 1935; Misra, 1999), whilst the importance of independent joint-stock firms have been marginalized (Chapman, 1998). Less attention has been placed on understanding the factors that shaped the transitions between the different forms. Indeed, a lack of basic quantification of the number, size, and scope of the different organizational forms has made it difficult to accurately assess trends in the changes of the organization of business, and subsequent correlation with the scale and value of trade.

To address these questions new data drawn from nineteenth century Bengal business registers is used to categorize firms involved in the trade typologically and chronologically, clarifying and quantifying how and when the organization of trade changed. This data is correlated with longitudinal analysis of the organization of key export products including indigo and tea, to examine factors determining the changes in ownership and organization.

### Identifying changes in organization

The data from the registers, shown in Table 13.3, reveals three significant trends. The first was the growth in number of agency houses. Although the two decades after 1813 were dominated by a stable number of around 25 agency houses, there was a sharp increase in the number of trading partnerships after credit crises in the 1830s and 1840s saw large incumbents removed. The number stabilized at around 80 after 1848.

The second trend was the rapid proliferation of joint-stock firms after 1853. Prior to 1840 the use of the joint-stock form was virtually non-existent with only a handful of joint-stock banks established by government charter. Subsequently, a small number of firms in transport,
infrastructure, and manufacturing, incorporated. In India, the passing of a Companies Act in 1850, and a Limited Liability Act in 1857, simplified the administrative process of incorporation, and embedded the benefits of limited liability. In the decade after these changes the number of Calcutta registered joint-stock firms rose from 30 to 173. The form initially became dominant in the tea sector, which accounted for 40 percent of all joint stock firms in 1868.

The third trend shows that as the number of joint-stock firms increased in the late 1860s, both the number of managing agents and the number of joint-stock firms contracted to them rapidly increased. The number of firms acting as managing agents doubled between 1858 and 1868. By 1868 42 percent of joint-stock firms were contracted to agents. This trend was most notable in the tea sector. After its foundation in 1840, the industry dramatically expanded in the 1860s as demand grew in the UK. The number of joint-stock firms proliferated from a handful in the 1850s to 70 at the end of the 1860s (Griffiths, 1967). Yet, of these, 46 were listed as having a managing agent (Chapman, 1998).

The correlation between change in the role and organization of the trading companies and the growth in the value of the trade is striking. The gradual increase in the number of agency houses, in the years between 1813 and 1840, stimulated fitful growth. Yet, between 1848 and 1858, the decade in which the joint-stock form proliferated, saw the value of the trade almost double. Similarly, between 1858 and 1868 the value more than doubled again.

Analysis of the organization of the production, financing, and marketing of key export products, can shed light on the questions of change in organizational form. After 1813, the major Indian export products by value included raw cotton, indigo, sugar, and silk. In the first half of the nineteenth century indigo was the most valuable export crop in Bengal and it was the product which became synonymous with the agency houses (Chaudhuri, 1971). Initially the agency houses intermediated the trade, acting as commission agents for corresponding British trading houses.

However, the indigo industry was characterized by dramatic fluctuations in the level of production in Bengal, leading to volatility in supply and prices (Chowdhury, 1964). The trade was also affected by the limitations of the local financial system. Credit in Calcutta was relatively expensive and predominantly short term, whilst supply was also volatile, with the Bengal

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**Table 13.3 Number of trading companies and value of the Anglo-Indian trade, 1813–1868**

<table>
<thead>
<tr>
<th>Year</th>
<th>Agency houses</th>
<th>Joint-stock firms</th>
<th>Managing agents</th>
<th>Managed joint-stock</th>
<th>Value of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1813</td>
<td>25</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>£11,408,510.00</td>
</tr>
<tr>
<td>1824</td>
<td>24</td>
<td>4</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1834</td>
<td>25</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>1838</td>
<td>44</td>
<td>2</td>
<td>–</td>
<td>–</td>
<td>£22,831,943.00</td>
</tr>
<tr>
<td>1843</td>
<td>62</td>
<td>11</td>
<td>–</td>
<td>–</td>
<td>£22,046,714.00</td>
</tr>
<tr>
<td>1848</td>
<td>60</td>
<td>15</td>
<td>–</td>
<td>–</td>
<td>£22,565,996.00</td>
</tr>
<tr>
<td>1853</td>
<td>75</td>
<td>16</td>
<td>–</td>
<td>–</td>
<td>£30,902,006.00</td>
</tr>
<tr>
<td>1858</td>
<td>86</td>
<td>30</td>
<td>28</td>
<td>9</td>
<td>£41,408,784.00</td>
</tr>
<tr>
<td>1863</td>
<td>80</td>
<td>58</td>
<td>37</td>
<td>15</td>
<td>£84,398,889.00</td>
</tr>
<tr>
<td>1868</td>
<td>88</td>
<td>173</td>
<td>62</td>
<td>72</td>
<td>£96,173,711.00</td>
</tr>
</tbody>
</table>

Sources: Benchmark years of the merchant and company lists in Calcutta and Bengal commercial registers published between 1813 and 68 in the British Library (BL). Value of trade from Chaudhuri (1971), and DSAL statistics section, No. 27 and 31 (1841–1865) and No. 18 and 24 (1860–69). The values are real and have been deflated using the GDP deflator index in Broadberry and Van Leeuwen (2010).
economy racked by credit crises in the 1830s and 1840s (Tripathi, 1980). This resulted in periods of underinvestment and overproduction as factory owners reacted to the availability and cost of credit.

These limitations encouraged the agency houses to explore different mechanisms to organize the market. Utilizing relationships with firms in Britain gave them access to London’s financial markets, which placed them at the center of financing networks that funneled credit and capital into Bengal, particularly making loans to indigo factory owners. This saw the agency houses increasingly integrated into production, as they took ownership of factories as loans defaulted. (Webster, 2007).

The role played by the trading firms changed significantly, from intermediaries, to investors of capital, and ultimately managers of plantations and factories. The thin capital markets caused innovation with upstream integration, but this shifted risk onto the agency houses, who now owned not just the product, but also the means of production.

The challenges of capital and integration were intensified by the emergence of significant new opportunities and risk in the second half of the nineteenth century. The production of jute increased markedly, and its export value rose rapidly after the 1850s. Tea followed a similar trend, as the Indian tea industry went from supplying less than 5 percent of the UK’s total tea imports to 34 percent between 1866 and 1883 (Griffiths, 1967: 125).

The new industries were significantly different from indigo. The cultivation of tea required extensive capital investments in new plantations and infrastructure in the distant tea regions of Assam. In the late 1860s, rising demand in the UK created favorable conditions to attract capital from both British and Indian investors. A tea mania saw an explosion in the number of firms entering the industry. The Bengal registry for 1868 listed 70 joint-stock tea firms incorporated in both London and Calcutta, a dramatic increase on the handful operating in the late 1850s (Griffiths, 1967).

Innovating the trading company

Resolving the challenges of capital and integration encouraged experimentation with models of ownership and organization. The joint-stock form allowed entrepreneurs to address the growing scale of infrastructure investment, and diversify the escalating risks, by raising capital from shareholders in London and Calcutta and channeling it into the new industries. These developments allowed the integration of production and marketing activities, with many tea companies directly exporting to Britain for sale at auction and to wholesalers (Griffiths, 1967).

Yet, the decisions to fully integrate operations had implications for the internal organization and management of the firms. Owners and shareholders in London and Calcutta faced significant difficulties in establishing control over their managers in the far-off tea regions, with malfeasant and opportunistic behaviors an endemic feature of the operations, leading to declining profitability. Efforts to innovate governance mechanisms proved ineffectual in resolving these problems (Aldous, 2015). These governance challenges encouraged further experimentation.

The managing agency system allowed the joint-stock form to be leveraged to address the need for capital investments and gain benefits from integration. Yet, overarching firm governance was determined by the partnership form. The use of profit share and capital investment meant each partner, had “skin in the game,” with remuneration tied to firm performance, reducing the risks of opportunism. Many of the managing agent firms also drew on extensive experiences in controlling decentralized trade operations which equipped them with versatile managerial control systems, allowing them to successfully control and coordinate activities amongst the industrially diverse and geographically dispersed portfolio of managed firms (Jones, 2000).
Michael Aldous

Take-off in the Anglo-Indian trade

The expansion and take-off in the Anglo-Indian trade was facilitated by the experimentation with business forms. The thinness of the colonial financial markets encouraged diversification and subsequently the widespread use of the joint-stock form, enabled and incentivized by the institutional and economic developments of the 1850s. This significantly increased the flows of FDI allowing capital investment and the integration of operations in nascent industries, whilst the innovation of the managing agent system addressed the weakness of the joint-stock firms’ internal management, allowing the scope of the firms to expand and efficiencies of operations to improve.

The expansion of new industries and improved efficiencies of the firms had wider effects on the Anglo-Indian trade, with India becoming an increasingly large proportion of Britain’s total trade balance. Asia and the Near East’s share of British exports increased from 7 to 20 percent between 1805 and 1845 and accounted for 20 percent of British imports in 1845 (Chapman, 2004: 8). By 1845, Asia had become Britain’s second largest export market, with only Europe receiving a greater quantity of goods. The growth in the scale and scope of international trade saw the total value of Britain’s international exports and imports as a share of GDP increase from 21.4 percent in 1820 to 27.8 percent in 1850 and 43.6 percent by 1870 (Daudi et al., 2010: 106).

Trading companies in the long-run

Trading companies were the key makers of global trade from the seventeenth to the nineteenth centuries. As these findings show, merchants in the nineteenth century Anglo-Indian trade developed innovative organizational solutions to balance an evolving set of challenges resulting from changes in the economic and business environments. This experimentation improved market coordination, increased flows of FDI, and expanded industries and trade.

The explanation of the organization and expansion of the Anglo-Indian trade are improved through longitudinal analysis of these experimentations with business forms. Extending the analysis to investigate a wider ecology of firm types involved in the trade highlighted the important, but problematic, role of the joint-stock free-standing companies, mainly ignored in the literature. This improves understanding of the emergence and proliferation of the managing agent system.

Addressing the debates around the role of business forms enabled this research to show the importance of hybrid forms of ownership in solving the multifaceted challenges of international trade. It was notable that the take-off in the trade in the 1850s was strongly correlated with innovation in business forms, but occurred before major developments in transportation and communication, including the completion of the Suez Canal and London to Calcutta telegraph line in 1870.

This opens possibilities to rethink the evolution of trading companies beyond the nineteenth century. There was no ideal or optimal type, but an iterative and adaptive set of processes saw a broad typology of trading companies become active and successful. The experimentation and innovation in response to external and internal challenges led to wide-ranging diversification and hybridization of business forms to undertake international trade.

The problems with definition and categorization of what constitutes a trading company are clear. Yet, it is crucial to analyze the processes driving change between forms to understand their evolving role and importance. Whilst complicating analysis, and leading to modest findings that are bound by regional and industry contexts, research needs to systematically extend beyond the
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archetypal activities of intermediation, and explain the upstream integration into production and diversification into services such as banking. This approach will improve understanding of why trading companies became important makers of global business, and offer propositions to explain their further innovation and longevity.

Further comparative work on regions and industries would allow analysis to distinguish more clearly the effects of change in the institutional and economic environment on organizational innovations. This would deepen understanding of the contingent effects of the environment and path dependency in shaping decisions around firm organization. It would better explain the emergence and evolution of business forms active in international business and allow contemporary studies to consider how the long-run development of their antecedents shape modern MNEs; considering them as part of an evolutionary process of adaptation, rather than a monolithic optimal type. This can potentially improve understanding of the effects that innovation in business organization has had on the expansion of trade and FDI and the shape and velocity of globalization.

References


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